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SUBJECT: SRI LANKA: BUSINESS LEADERS WANT PEACE, BUT  
HESITATE TO PUSH FOR IT

REF: A) COLOMBO 491 B) COLOMBO 023 C) COLOMBO 536

¶1. (SBU) Summary and comment: Sri Lankan business leaders are concerned that increased fighting could provoke an LTTE attack that would seriously hurt the economy. While normally hesitant to question the government's handling of the conflict, a small group of American Chamber of Commerce members appears ready to tell President Rajapaksa that the economic costs of prolonged fighting could be higher than what his advisors are predicting. Embassy thinks the President might listen to a rationally presented case that average Sri Lankans' economic well-being could suffer if the government drives the LTTE to attack economic targets. End summary and comment.

#### NEGATIVE ECONOMIC IMPACT FROM INCREASED HOSTILITIES

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¶2. (SBU) On 5 April 2007, the Ambassador invited eleven business leaders from the American Chamber of Commerce to discuss how the private sector can advocate for a peaceful solution to the conflict between the Government of Sri Lanka (GSL) and the ethnic separatist Liberation of Tigers of Tamil Eelam (LTTE). The executives were unanimous that the resumption of fighting in the past year was bad for the economy and for their businesses. They believed that continued fighting would further harm Sri Lanka's business climate and deter both international and local investment. The March 26 LTTE air attack (ref A) had spooked some foreign business partners and had given a foretaste of how badly business could be affected if a desperate LTTE attacked economic targets like ports or hotels.

¶3. (SBU) The CEO of a major garment exporter said that his company's American strategic partners had canceled a visit to the island after the air attack. This was the first time such crucial on-site meetings had been cancelled. "We are this close to disaster," said the visibly worried CEO, indicating the width of his hand. (Note: At the CEO's request, the Ambassador subsequently spoke to the partner company's ex-FBI security officer and expressed Embassy's view that the air attack had not made it unsafe to travel to Colombo and its environs.)

14. (SBU) A telecom company managing director likewise described how the hostilities were hurting his business. The government routinely ordered the telco to disable its CDMA wireless landline services in the North and East, in an effort to limit the LTTE's communications. However, the government forbade the company from attributing the service interruption to government instructions. As a result, when customers complained that their service was out, the company had no way to deflect the blame from itself. Also, he reported, there were now so many highway checkpoints, manned by unidentified armed officials, that he had stopped sending employees on work trips to Trincomalee. This prevented his company from making further investments in the North and East in the short term. He would like to bring business back to the area, he said, but "I need to protect my business and shareholder value."

#### CALLING FOR PEACE BRANDED AS UNPATRIOTIC

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15. (SBU) The business leaders, most of whom are well-connected to senior government officials, reported that the government seems confident that it could gain the upper hand in the conflict by fighting, rather than negotiating. They acknowledged that the private sector had not actively or vocally advocated a peaceful solution to the conflict. They told Ambassador that doing so risked harming their relations with the government and with their customers. The government would likely view calls for peace as criticism of its policies. Since the government had a hand in every aspect of the economy, it was in a position to punish companies that it

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viewed as disloyal. Likewise, average Sinhalese -- the companies' consumer base -- were pleased that the government was finally "punching back" against the LTTE, one executive said, adding "you are a traitor if you question that."

16. (SBU) The AmCham members cited lack of unity among businesses as another reason that they had not more actively pressed for peace. Many companies had not been as badly affected by the renewed fighting as tourism firms had been. One representative noted that the government did not heed the tourism sector, but that the plantation and garment sectors could get the president to listen. Most felt that only a serious attack against a prime economic target would produce a consensus among businesses to press for peace.

#### PRESIDENT MIGHT LISTEN TO ECONOMIC ARGUMENTS

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17. (SBU) The Ambassador observed that President Rajapaksa generally responded best to arguments backed up by real evidence. He recommended that the business leaders stick to their area of expertise -- economic, not humanitarian or political concerns. One importer, a member of the president's new National Economic Council (ref B), agreed, saying the firms should focus on the war's impact on the economy, not just on their businesses. Discussing the economic case for peace, the group judged that the president did not mind that the war imposed an opportunity cost on GDP growth. They thought the president would be satisfied if GDP grew by six percent in 2007, instead of the publicly targeted eight percent. They knew Rajapaksa to be sensitive about inflation however, so this would be a point they could make -- that the war would make it hard to reduce Sri Lanka's twenty percent inflation (ref C). The garment company CEO, saying it was useless to raise these issues publicly or in the press, offered to join three or four other business leaders with access to the President to quietly make their case.

COMMENT

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18. (SBU) Only the Ambassador and a handful of other diplomats, UN officials and local NGOs have been willing to discuss publicly the costs of continued fighting; few Sri Lankans have been willing to do so. The Embassy has no illusion that business leaders' expressions of concern to the president will cause him to reverse his policy of pressing the LTTE militarily. We do, however, think it important that the president hear an assessment, more frank than what his advisors may be giving him, of how the war is affecting the economy, and how much worse it could be if the LTTE were to attack an economic target.

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